

WHITE PIGEON COMMUNITY SCHOOLS

FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION

JUNE 30, 2007

White Pigeon Community Schools

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White Pigeon Community Schools

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Norman & Paulsen, P.C.

Certified Public Accountants

127 W. Chicago Road
Sturgis, MI 49091
269.651.3228
Fax 269.651.5146
E-mail
normanpaulsen@charter.net

Other Location:
123 N. Main Street
Three Rivers, MI 49093
269.273.8641
Fax 269.278.8252
E-mail
npnr@npaccounting.com

INDEPENDENT AUDITOR'S REPORT

Board of Education
White Pigeon Community Schools, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of White Pigeon Community Schools, as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of White Pigeon Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of White Pigeon Community Schools as of June 30, 2007, and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)

Board of Education
White Pigeon Community Schools

The administration's discussion and analysis and budgetary comparison schedule, as identified in the table of contents, are not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise White Pigeon Community Schools basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2007, on our consideration of White Pigeon Community School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Norman J. Paulson, P.C.

October 19, 2007

WHITE PIGEON COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS
YEAR ENDED June 30, 2007

This section of White Pigeon Community Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2007. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand White Pigeon Community Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statement

(Required Supplemental Information)

Budgetary Information for the General Fund and Major Special Revenue Funds

Other Supplemental Information

Reporting the School District as a whole - District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

WHITE PIGEON COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED June 30, 2007

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

WHITE PIGEON COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2007

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2007 and 2006:

TABLE I	June 30,	
	<u>2007</u>	<u>2006</u>
Assets		
Current and other assets	\$ 1,664,790	\$ 3,095,929
Capital assets - Net of accumulated depreciation	<u>1,665,123</u>	<u>1,873,322</u>
Total assets	3,329,913	4,969,251
Liabilities		
Current liabilities	950,466	2,295,311
Long-term liabilities	<u>91,994</u>	<u>103,488</u>
Total liabilities	1,042,460	2,398,799
Net Assets		
Invested in property and equipment - net of related debt	1,592,557	1,797,256
Unrestricted	<u>694,896</u>	<u>773,196</u>
Total net assets	<u>\$ 2,287,453</u>	<u>\$ 2,570,452</u>

WHITE PIGEON COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2007

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$2,287,453 at June 30, 2007. Capital assets, net of related debt totaling \$1,592,557 compares the original cost, less depreciation of the School District's capital assets to long-term debt. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$694,896 was unrestricted.

The \$694,896 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years ended June 30, 2007 and 2006.

TABLE 2

	June 30,	
	2007	2006
Revenue		
Program revenue:		
Charges for services	\$ 278,993	\$ 282,950
Grants and catagoricals	1,090,945	1,011,135
General revenue:		
Property taxes	1,971,199	1,933,426
State foundation allowance	3,945,336	4,050,485
Interest and other	<u>154,517</u>	<u>192,363</u>
Total revenue	7,440,990	7,470,359
Function/Program Expenses		
Instruction	4,629,306	4,600,636
Support services	2,317,217	2,336,022
Food services	330,452	317,927
Athletics	182,260	183,670
Community services	47,895	38,170
Interest on long-term debt	-	8,658
Depreciation (unallocated)	<u>216,859</u>	<u>182,878</u>
Total expenses	<u>7,723,989</u>	<u>7,667,961</u>
Increase in net assets	<u>\$ (282,999)</u>	<u>\$ (197,602)</u>

WHITE PIGEON COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED June 30, 2007

As reported in the statement of activities, the cost of all governmental activities this year was \$7,723,960. Certain activities were partially funded from those who benefited from the programs \$(278,993) or by other governments and organizations that subsidized certain programs with grants and categoricals \$(1,090,945). We paid for the remaining "public benefit" portion of our governmental activities with \$1,971,199 in taxes, \$3,945,336 is State foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced a decrease in net assets of \$282,999. Key reasons for the change in net assets were decreases in state foundation revenue and increased instruction costs and depreciation expense. The decrease in net assets differs from the change in fund balance and a reconciliation appears on page 15.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted sources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$729,428, which is an increase of \$50,552 from last year. In the General Fund, our principal operating fund, the fund balance increased \$41,178 to \$720,054. This increase was primarily the result of the payoff of a land contract for sale of a building.

Our Athletics Fund is maintained at a zero fund balance and is supported by transfers of \$150,836 from the General Fund.

The Food Service Fund experienced an increase in fund balance of \$9,374. This was primarily the result of increased revenue from the National School Lunch Program.

WHITE PIGEON COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2007

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

Budgeted revenues were increased \$231,000, to better reflect state per student foundation funding, the unexpected payoff of a land contract receivable, and a donation from a local business. Actual revenues were within \$17,878 of final budgeted revenues or .25 percent.

Budgeted expenditures were decreased by \$53,420 to better reflect expected increases in salaries, benefits, fuel, and utilities. Actual expenditures ended the year under the final budget by \$149,119 or 2.1 percent.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2007, the School District had \$5,350,303 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions and disposals) of \$162,470 from last year.

	<u>2007</u>	<u>2006</u>
Land	\$ 81,600	\$ 81,600
Buildings and improvements	3,658,970	3,658,970
Buses and other vehicles	838,932	1,010,062
Furniture and equipment	<u>770,801</u>	<u>762,141</u>
Total capital assets	5,350,303	5,512,773
Less accumulated depreciation	<u>3,685,180</u>	<u>3,639,451</u>
Net capital assets	<u>\$ 1,665,123</u>	<u>\$ 1,873,322</u>

WHITE PIGEON COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2007

Debt

At the end of this year, the School District had long-term debt obligations totaling \$107,098 outstanding versus \$128,775 in the previous year - a change of 16.8 percent. The debt obligations consisted of the following:

	<u>2007</u>	<u>2006</u>
General Obligation Bonds	\$ 34,066	\$ 34,066
Notes payable	38,500	42,000
Severance pay agreements/ compensated absences	<u>34,532</u>	<u>52,709</u>
	<u>\$ 107,098</u>	<u>\$ 128,775</u>

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt is significantly below the statutorily imposed limit.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

The financial status of the State of Michigan may result in future Executive Order Cuts from the Governor.

Increases in the employer contribution to the Michigan Public School Employees Retirement System, as well as increased premiums for health insurance will significantly affect the District's finances.

Increases in heating fuel costs and transportation fuel costs.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Department, 410 E. Prairie Street, White Pigeon, MI 49099.

WHITE PIGEON COMMUNITY SCHOOLS

STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents	\$ 855,746
Accounts receivable	8,425
Due from other governmental units	773,341
Inventories	21,190
Prepaid expenses	<u>6,088</u>
Total current assets	1,664,790
Noncurrent Assets:	
Capital assets	5,350,303
Less: accumulated depreciation	<u>(3,685,180)</u>
Total noncurrent assets	<u>1,665,123</u>
Total assets	3,329,913
<u>LIABILITIES</u>	
Current Liabilities:	
Short-term note payable	200,000
Accounts payable	17,180
Accrued payroll	468,990
Accrued benefits	238,221
Accrued interest	2,474
Deferred revenue	8,497
Notes payable, due within one year	3,500
Bonds payable, due within one year	-
Other obligations	<u>11,604</u>
Total current liabilities	950,466
Noncurrent Liabilities:	
Other obligations	22,928
Notes payable	35,000
Bonds payable	<u>34,066</u>
Total noncurrent liabilities	<u>91,994</u>
Total liabilities	1,042,460
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	1,592,557
Unrestricted	<u>694,896</u>
Total net assets	<u><u>\$ 2,287,453</u></u>

See Notes to Financial Statements

WHITE PIGEON COMMUNITY SCHOOLS

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

		<u>Program Revenues</u>		<u>Governmental</u>
				<u>Activities</u>
				Net (Expense)
				Revenue and
				Changes in Net
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Assets</u>
		<u>Services</u>	<u>Grants/</u>	
			<u>Contributions</u>	
Functions/Programs				
Governmental activities:				
Instruction	\$ 4,629,306	\$ 120,164	\$ 821,618	\$ (3,687,524)
Support services	2,317,217	4,722	2,995	(2,309,500)
Food services	330,452	108,423	227,394	5,365
Athletics	182,260	31,424	-	(150,836)
Community services	47,895	14,260	38,938	5,303
Interest on long-term debt	-	-	-	-
Depreciation (unallocated)	<u>216,859</u>	<u>-</u>	<u>-</u>	<u>(216,859)</u>
Total Governmental activities	<u>\$ 7,723,989</u>	<u>\$ 278,993</u>	<u>\$ 1,090,945</u>	(6,354,051)
General revenues:				
Taxes				
Property taxes, levied for general operations				1,971,199
State aid not restricted to specific purposes				3,945,336
Interest and investment earnings				66,603
Gain on sale of assets				4,608
Other				<u>83,306</u>
Total general revenues				<u>6,071,052</u>
Change in Net Assets				(282,999)
Net Assets - Beginning of year				<u>2,570,452</u>
Net Assets - End of year				<u>\$ 2,287,453</u>

See Notes to Financial Statements

WHITE PIGEON COMMUNITY SCHOOLS

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2007

	General	Other Nonmajor Governmental Funds	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 855,279	\$ 467	\$ 855,746
Accounts receivable	8,425	-	8,425
Due from other governmental units	773,341	-	773,341
Due from other funds	218	8,217	8,435
Inventories	17,538	3,652	21,190
Prepaid expenses	6,088	-	6,088
Total assets	<u>\$ 1,660,889</u>	<u>\$ 12,336</u>	<u>\$ 1,673,225</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Short-term note payable	\$ 200,000	\$ -	\$ 200,000
Accrued interest	2,474	-	2,474
Accounts payable	15,655	1,525	17,180
Accrued payroll	468,018	972	468,990
Accrued benefits	237,974	247	238,221
Due to other funds	8,217	218	8,435
Deferred revenue	8,497	-	8,497
Total liabilities	940,835	2,962	943,797
Fund Balances:			
Reserved:			
Inventories	17,538	-	17,538
Unreserved:			
Designated for curriculum	57,000	-	57,000
Designated for technology	38,711	-	38,711
Designated for capital assets	79,539	-	79,539
Undesignated	527,266	9,374	536,640
Total fund balances	<u>720,054</u>	<u>9,374</u>	<u>729,428</u>
Total liabilities and fund balances	<u>\$ 1,660,889</u>	<u>\$ 12,336</u>	<u>\$ 1,673,225</u>

See Notes to Financial Statements

WHITE PIGEON COMMUNITY SCHOOLS

GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Total Fund Balances - Governmental Funds \$ 729,428

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not
financial resources and are not reported in the funds.

The cost of the capital assets is 5,350,303

Accumulated depreciation is (3,685,180)

Total 1,665,123

Long-term liabilities are not due and payable in the
current period and are not reported in the funds:

Other obligations (34,532)

Notes payable (38,500)

Bonds payable (34,066)

Accrued interest payable on long-term liabilities is not
included as a liability in governmental activities -

Net assets of governmental activities \$ 2,287,453

See Notes to Financial Statements

WHITE PIGEON COMMUNITY SCHOOLS

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED June 30, 2007

	General	Other Nonmajor Governmental Funds	Total
Revenues:			
Local sources	\$ 2,324,443	\$ 139,847	\$ 2,464,290
State sources	4,553,352	13,514	4,566,866
Federal sources	255,535	213,880	469,415
Interdistrict	83,439	-	83,439
Other	-	4,009	4,009
Total revenues	7,216,769	371,250	7,588,019
Expenditures:			
Instruction	4,496,718	-	4,496,718
Supporting services	2,341,394	-	2,341,394
Food service	-	330,452	330,452
Athletics	-	182,260	182,260
Community services	50,555	-	50,555
Debt service			
Principal repayment	3,500	-	3,500
Interest and fiscal charges	-	-	-
Interdistrict	132,588	-	132,588
Total expenditures	7,024,755	512,712	7,537,467
Excess (deficiency) of revenues over expenditures	192,014	(141,462)	50,552
Other financing sources (uses):			
Operating transfers in	-	150,836	150,836
Operating transfers out	(150,836)	-	(150,836)
Total other financing sources (uses)	(150,836)	150,836	-
Net change in fund balances	41,178	9,374	50,552
Fund balances, July 1	678,876	-	678,876
Fund balances, June 30	\$ 720,054	\$ 9,374	\$ 729,428

See Notes to Financial Statements

WHITE PIGEON COMMUNITY SCHOOLS

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

Net change in Fund Balances - Total Governmental Funds	\$	50,552
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.		
Depreciation expense		(216,859)
Capital outlays		<u>8,660</u>
Total		(208,199)
Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid		-
Gain on sale of assets is reported for governmental activities in the statement of activities, but not in the governmental funds (where proceeds are reported as income)		4,608
Decreases in compensated absences and accumulated severance pay are reported as expenditures when financial resources are used in the governmental funds		18,177
Repayment of bond principal and note principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		3,500
Proceeds from the sale of capital assets is a local revenue in the government funds, but not in the statement of activities (where proceeds are netted against carrying value to calculate gain)		<u>(151,637)</u>
Change in Net Assets of Governmental Activities	\$	<u>(282,999)</u>

See Notes to Financial Statements

WHITE PIGEON COMMUNITY SCHOOLS
FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007

	<u>Student Activities Agency Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents	<u>\$ 59,061</u>
<u>LIABILITIES</u>	
Due to student groups	<u>\$ 59,061</u>

See Notes to Financial Statements

WHITE PIGEON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note - 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of White Pigeon Community Schools conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School Districts' reporting entity, and which organizations are legally separate, component units of the school district. Based on the application of the criteria, the district does not contain any component units.

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district's government wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

WHITE PIGEON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customer or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

WHITE PIGEON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The school district reports the following major governmental funds:

The General Fund is the school district's primary operating fund. It accounts for all financial resources of the district, except those required to be accounted for in another fund.

Additionally, the government reports the following fund types:

The Debt Service Fund is used to record tax, interest and other revenue for payments of principle, interest and other expenditures on the bond issues.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District are the Athletic Fund and Food Services Fund.

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The School District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

WHITE PIGEON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

The State of Michigan utilized a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

WHITE PIGEON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extended asset life are not capitalized. The school district does not have infrastructure type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Compensated Absences - The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

WHITE PIGEON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications - Comparative data is not included in the district's financial statements.

Use of Estimates - The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the district to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School district did not have significant expenditure budget variances.

WHITE PIGEON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 3 - CASH AND CASH EQUIVALENTS

The School District's cash and cash equivalents at June 30, 2007, are composed of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Deposits	\$ <u>855,746</u>	\$ <u>59,061</u>	\$ <u>914,807</u>

Deposits consist of checking, savings, and bank municipal investment funds. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$1,032,765. Of that amount, \$127,976 was covered by federal depository insurance coverage and \$104,899 was uninsured. The balance of \$799,890 was invested in bank municipal investment funds which are not categorized by risk.

The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. The School District evaluates each financial institution it deposits School District funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

NOTE 4 - NOTES RECEIVABLE

On September 13, 2006, the District sold an unused building and lot to an unrelated party on an installment note. The sale was for an installment note in the amount of \$154,000, at an interest rate of 7%, and the buyer assumed a note payable to a governmental unit of \$21,600. The note payable was a special assessment against the property purchased. Payments on this note were to be paid \$1,500 per month including interest, with the entire balance to be paid at the end of twelve months. At June 30, 2006, the balance receivable on the note was \$147,029. The note was paid in full in November 2007.

The cost of the building, land, and equipment sold by the district was \$322,775. At the time of the sale, the capital assets had a carrying value of \$82,910. The school district recognized a gain on the sale of the capital assets of \$92,690, less transfer tax of \$1,324, for a net gain of \$91,366.

WHITE PIGEON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 5 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue include unearned grant and categorical aid payments received prior to meeting all eligibility requirements in the amount of \$8,497.

NOTE 6 - CAPITAL ASSETS

Capital asset activity of the School District's governmental activities was as follows:

	Balance <u>July 1, 2006</u>	<u>Additions</u>	Disposals and <u>Adjustments</u>	Balance <u>June 30, 2007</u>
Assets not being depreciated - Land	\$ 81,600	\$ -	\$ -	\$ 81,600
Capital assets being depreciated:				
Buildings and building improvements	3,658,970	-	-	3,658,970
Buses and other vehicles	1,010,062	-	171,130	838,932
Furniture and equipment	<u>762,141</u>	<u>8,660</u>	<u>-</u>	<u>770,801</u>
Subtotal	5,431,173	8,660	171,130	5,268,703
Accumulated depreciation:				
Buildings and building improvements	2,338,641	50,993	-	2,389,634
Buses and other vehicles	839,323	59,317	171,130	727,510
Furniture and equipment	<u>461,487</u>	<u>106,549</u>	<u>-</u>	<u>568,036</u>
Subtotal	<u>3,639,451</u>	<u>216,859</u>	<u>171,130</u>	<u>3,685,180</u>
Net capital assets being depreciated	<u>1,791,722</u>			<u>1,583,523</u>
Net capital assets	<u>\$ 1,873,322</u>			<u>\$ 1,665,123</u>

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

The composition of interfund balances is as follows:

NOTE 8 - SHORT-TERM DEBT

NOTE 9 - LONG-TERM DEBT

The school district issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the school district. Other long-term obligations include compensated absences and voluntary severance pay agreements.

Long-term obligation activity can be summarized as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds	\$ 34,066	\$ -	\$ -	\$ 34,066	<u>\$ -</u>
Notes	42,000	-	3,500	38,500	<u>3,500</u>
Other Obligations	<u>52,709</u>	<u>2,099</u>	<u>20,276</u>	<u>34,532</u>	<u>\$ 11,604</u>
Totals	<u>\$ 128,775</u>	<u>\$ 2,099</u>	<u>\$ 23,776</u>	<u>\$ 107,098</u>	

WHITE PIGEON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 9 - LONG-TERM DEBT - (Continued)

The annual requirement to service the bonds and notes outstanding to maturity, including both principal and interest, are as follows:

Year ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 3,500	\$ -	\$ 3,500
2009	8,126	1,211	9,337
2010	16,975	4,034	21,009
2011	8,577	760	9,337
2012	8,818	518	9,336
2013-2017	23,070	265	23,335
2018-2022	<u>3,500</u>	<u>-</u>	<u>3,500</u>
	<u>\$ 72,566</u>	<u>\$ 6,788</u>	<u>\$ 79,354</u>

Governmental Activities:

General obligation bonds consist of:

\$83,117 School Improvement Bond (Durant Settlement) the annual principal and interest payments are to be paid directly by the state of Michigan \$ 34,066

Notes payable consist of:

Note payable to Intermediate School District, annual payments of \$3,500 through June 2018, no stated interest rate, unsecured \$ 38,500

Other governmental activity long-term obligations include:

Employee - compensated absences \$ 19,386

Accumulated severance pay payable at \$7,573 in 2008 and 2009 15,146

Total other obligations \$ 34,532

NOTE 10- RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for property loss, torts, errors and omissions, and medical claims for certain employee groups. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

WHITE PIGEON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 11- DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy - Employer contributions to the system result from the implementing effect of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 16.34 percent for the period July 1, 2006 through September 30, 2006 and 17.74 percent for the period October 1, 2006 through June 30, 2007 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions to the MPERS plan for the years ended June 30, 2007, 2006, and 2005 were \$669,346, \$647,329, and \$575,177.

Post Employment Benefits - Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental, and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPERS plan discussed above.

REQUIRED SUPPLEMENTAL INFORMATION

WHITE PIGEON COMMUNITY SCHOOLS

REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2007

	Original Budget	Final Budget	Actual	Over (under) Final Budget
Revenues:				
Local sources	\$ 2,004,032	\$ 2,315,002	\$ 2,324,443	\$ 9,441
State sources	4,678,021	4,569,608	4,553,352	(16,256)
Federal sources	243,637	265,597	255,535	(10,062)
Interdistrict	<u>77,940</u>	<u>84,440</u>	<u>83,439</u>	<u>(1,001)</u>
Total revenue	7,003,630	7,234,647	7,216,769	(17,878)
Expenditures:				
Instruction:				
Basic programs	3,691,802	3,590,369	3,578,363	(12,006)
Added needs	908,499	945,334	918,355	(26,979)
Support services:				
Pupil	134,822	130,010	127,174	(2,836)
Instructional staff	114,507	138,716	123,139	(15,577)
General administration	309,079	254,171	243,100	(11,071)
School administration	398,493	391,561	388,707	(2,854)
Business services	180,433	190,101	210,731	20,630
Operations and maintenance	681,398	734,444	709,154	(25,290)
Security services	-	-	-	-
Transportation	512,985	467,255	433,523	(33,732)
Other services	98,137	110,830	105,866	(4,964)
Community services	38,074	70,550	50,555	(19,995)
Debt service	-	3,500	3,500	-
Interdistrict	<u>159,065</u>	<u>147,033</u>	<u>132,588</u>	<u>(14,445)</u>
Total expenditures	<u>7,227,294</u>	<u>7,173,874</u>	<u>7,024,755</u>	<u>(149,119)</u>
Excess (deficiency) of revenues over expenditures	(223,664)	60,773	192,014	131,241
Other financing sources (uses):				
Operating transfers out	<u>(143,243)</u>	<u>(136,919)</u>	<u>(150,836)</u>	<u>(13,917)</u>
Net change in fund balances	(366,907)	(76,146)	41,178	117,324
Fund balance, July 1	<u>678,876</u>	<u>678,876</u>	<u>678,876</u>	<u>-</u>
Fund balance, June 30	<u>\$ 311,969</u>	<u>\$ 602,730</u>	<u>\$ 720,054</u>	<u>\$ 117,324</u>

OTHER SUPPLEMENTAL INFORMATION

WHITE PIGEON COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF REVENUES
YEAR ENDED JUNE 30, 2007

REVENUES

Revenues from local sources	
Current property taxes	\$ 1,971,199
Interest on investments	66,550
Tuition and fees	20,945
Transportation charges	34,761
Miscellaneous revenues	79,351
Sale of fixed assets	<u>151,637</u>
Total revenues from local sources	2,324,443
Revenues from state sources	
Foundation	3,945,336
Early childhood education	102,300
At Risk	174,042
Special education	254,812
Durant Settlement	8,312
Motorcycle safety	38,938
Bus driver training	1,824
Middle School Math/Science	7,156
Declining enrollment	<u>20,632</u>
Total revenues from state sources	4,553,352
Revenues from federal sources	
Title I	176,628
Title IIA Improving Teacher Quality	55,066
Title V Innovative Programs	14,415
Technology Literacy	1,767
Drug-Free Schools	3,284
Targeted Case Management	1,380
Service Provider Self Review	<u>2,995</u>
Total revenues from federal sources	255,535
Revenues from other districts	
Transportation	2,147
CTE program	75,218
Miscellaneous	<u>6,074</u>
Total revenues from other districts	<u>83,439</u>
Total revenues	<u>\$ 7,216,769</u>

WHITE PIGEON COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF OPERATING EXPENDITURES
YEAR ENDED JUNE 30, 2007

INSTRUCTION

Basic Programs

Elementary

Salaries	\$ 1,121,014
Employee benefits	617,534
Purchased services	14,042
Supplies and materials	<u>27,539</u>

Total elementary instruction expenditures	1,780,129
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Middle School

Salaries	366,458
Employee benefits	200,330
Purchased services	4,746
Supplies and materials	4,913
Other	<u>-</u>

Total middle school instruction expenditures	576,447
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High School

Salaries	718,923
Employee benefits	367,677
Purchased services	19,709
Supplies and materials	23,870
Capital outlay	-
Other	<u>-</u>

Total high school instruction expenditures	1,130,179
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Pre-school

Salaries	58,138
Employee benefits	30,367
Purchased services	1,651
Supplies and materials	<u>1,452</u>

Total pre-school instructional expenditures	<u>91,608</u>
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Total basic programs	3,578,363
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WHITE PIGEON COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF OPERATING EXPENDITURES - Continued
YEAR ENDED JUNE 30, 2007

INSTRUCTION - Continued

Added Needs

Special education	
Salaries	324,701
Employee benefits	172,894
Purchased services	8,536
Supplies and materials	<u>774</u>

Total special education instruction expenditures	506,905
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Compensatory education

Salaries	109,620
Employee benefits	41,886
Supplies and materials	13,111
Other	<u>4,332</u>

Total compensatory education instruction expenditures	168,949
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At Risk education

Salaries	103,884
Employee benefits	62,364
Purchased services	835
Supplies and materials	<u>123</u>

Total at risk education instruction expenditures	167,206
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CTE programs

Salaries	48,759
Employee benefits	25,962
Purchased services	<u>574</u>

Total other programs education instruction expenditures	<u>75,295</u>
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Total added needs	<u>918,355</u>
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Total instruction expenditures	4,496,718
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WHITE PIGEON COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF OPERATING EXPENDITURES - Continued
YEAR ENDED JUNE 30, 2007

SUPPORTING SERVICES

Pupil Services

Guidance services

Salaries	67,591
Employee benefits	36,139
Supplies and materials	<u>99</u>

Total guidance services	103,829
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Student supervision services

Salaries	18,149
Employee benefits	2,296
Purchased services	<u>2,900</u>

Total student supervision services	<u>23,345</u>
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Total pupil services	127,174
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Instructional Staff Services

Library services

Salaries	31,595
Employee benefits	8,050
Purchased services	251
Supplies and materials	<u>2,696</u>

Total library expenditures	42,592
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Improvement of Instruction Services

Salaries	11,024
Employee benefits	2,650
Purchased services	33,116
Supplies and materials	32,082
Other	<u>1,675</u>

Total improvement of instruction services	<u>80,547</u>
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Total instructional staff services	123,139
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General Administrative Services

Board of education

Salaries	1,590
Purchased services	25,425
Supplies and materials	3,737
Other	<u>2,738</u>

Total board of education expenditures	33,490
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WHITE PIGEON COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF OPERATING EXPENDITURES - Continued
YEAR ENDED JUNE 30, 2007

SUPPORTING SERVICES - Continued

Executive administration	
Salaries	116,144
Employee benefits	63,553
Purchased services	27,960
Supplies	1,012
Other	<u>941</u>
Total executive administration expenditures	<u>209,610</u>
Total general administrative services	243,100
School Administrative Services	
Office of the Principal	
Salaries	183,805
Employee benefits	109,951
Purchased services	91,448
Supplies and material	1,093
Other	<u>900</u>
Total office of the principal expenditures	387,197
Other School Administration	
Supplies and materials	<u>1,510</u>
Total other school administration	<u>1,510</u>
Total school administrative services	388,707
Business Services	
Salaries	58,605
Employee benefits	35,542
Purchased services	12,136
Supplies and materials	1,859
Other	<u>102,589</u>
Total business services expenditures	210,731

WHITE PIGEON COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF OPERATING EXPENDITURES - Continued
YEAR ENDED JUNE 30, 2007

SUPPORTING SERVICES - Continued

Operation and Maintenance

Operation and maintenance of plant

Salaries	180,201
Employee benefits	124,602
Purchased services	220,562
Supplies and materials	177,789
Capital outlay	<u>6,000</u>

Total operation and maintenance expenditures	709,154
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Pupil Transportation

Pupil transportation services

Salaries	233,786
Employee benefits	103,583
Purchased services	16,023
Supplies and materials	79,564
Other	<u>567</u>

Total pupil transportation services	433,523
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Other Services

Evaluation services

Salaries	400
Employee benefits	330
Purchased services	<u>765</u>

Total evaluation services	1,495
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Staff/personnel services

Purchased services	19,081
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Technology services

Salaries	900
Purchased services	77,946
Supplies and materials	<u>6,444</u>

Total technology services	<u>85,290</u>
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Total other services	<u>105,866</u>
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Total supporting services expenditures	2,341,394
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WHITE PIGEON COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF OPERATING EXPENDITURES - Continued
YEAR ENDED JUNE 30, 2007

COMMUNITY SERVICES

Community activities	
Purchased services	600
Supplies and materials	<u>898</u>

Total community activities	1,498
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Motorcycle Safety Program

Salaries	28,005
Benefits	6,956
Purchased services	5,171
Supplies, materials, and other	2,755
Capital outlay	2,660
Other	<u>3,510</u>

Total Motorcycle Safety Program	<u>49,057</u>
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Total community services expenses	50,555
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DEBT SERVICE

Principal repayment	3,500
Interest and fiscal charges	<u>-</u>

Total debt service	3,500
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OTHER DISTRICTS

CTE program	120,811
JDT program	5,314
Other	<u>6,463</u>

Total other districts	<u>132,588</u>
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Total operating expenditures	<u><u>\$ 7,024,755</u></u>
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WHITE PIGEON COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2007

	<u>Special Revenue Funds</u>		
	<u>Food Services</u>	<u>Athletics</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 249	\$ 218	\$ 467
Due from other funds	8,217	-	8,217
Inventory	<u>3,652</u>	<u>-</u>	<u>3,652</u>
Total assets	<u>\$ 12,118</u>	<u>\$ 218</u>	<u>\$ 12,336</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 1,525	\$ -	\$ 1,525
Accrued payroll	972	-	972
Accrued benefits	247	-	247
Due to other funds	<u>-</u>	<u>218</u>	<u>218</u>
Total liabilities	2,744	218	2,962
Fund balances:			
Unreserved:			
Undesignated	<u>9,374</u>	<u>-</u>	<u>9,374</u>
Total liabilities and fund balances	<u>\$ 12,118</u>	<u>\$ 218</u>	<u>\$ 12,336</u>

WHITE PIGEON COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	<u>Special Revenue Funds</u>		
	<u>Food Services</u>	<u>Athletics</u>	<u>Total</u>
Revenues:			
Local sources	\$ 108,423	\$ 31,424	\$ 139,847
State sources	13,514	-	13,514
Federal sources	213,880	-	213,880
Other sources	<u>4,009</u>	<u>-</u>	<u>4,009</u>
Total revenues	339,826	31,424	371,250
Expenditures:			
Food services	330,452	-	330,452
Athletics	-	182,260	182,260
Total expenditures	<u>330,452</u>	<u>182,260</u>	<u>512,712</u>
Excess (deficiency) of revenues over expenditures	9,374	(150,836)	(141,462)
Other financing sources:			
Operating transfers in	<u>-</u>	<u>150,836</u>	<u>150,836</u>
Net change in fund balances	9,374	-	9,374
Fund balances, July 1	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, June 30	<u>\$ 9,374</u>	<u>\$ -</u>	<u>\$ 9,374</u>

WHITE PIGEON COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
FOOD SERVICE FUND

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Local sources	\$ 106,340	\$ 108,423	\$ 2,083
State sources	25,170	13,514	(11,656)
Federal sources	189,612	213,880	24,268
Other sources	<u>2,474</u>	<u>4,009</u>	<u>1,535</u>
Total revenues	323,596	339,826	16,230
Expenditures:			
Salaries	111,449	111,703	254
Employee benefits	44,314	44,446	132
Purchased services	6,375	5,687	(688)
Supplies, materials and other expenditures	156,949	168,616	11,667
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>319,087</u>	<u>330,452</u>	<u>11,365</u>
Excess (deficiency) of revenues over expenditures	4,509	9,374	4,865
Other financing sources:			
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	4,509	9,374	4,865
Fund balance, July 1	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30	<u>\$ 4,509</u>	<u>\$ 9,374</u>	<u>\$ 4,865</u>

WHITE PIGEON COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

ATHLETIC FUND

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Local sources	\$ 46,553	\$ 31,424	\$ (15,129)
 Expenditures:			
Salaries	86,093	85,696	(397)
Employee benefits	21,859	21,896	37
Purchased services	61,608	62,068	460
Supplies, materials and other expenditures	13,912	12,600	(1,312)
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>
 Total expenditures	<u>183,472</u>	<u>182,260</u>	<u>(1,212)</u>
 Excess (deficiency) of revenues over expenditures	(136,919)	(150,836)	(13,917)
 Other financing sources:			
Operating transfers in	<u>136,919</u>	<u>150,836</u>	<u>13,917</u>
 Net change in fund balances	-	-	-
 Fund balance, July 1	<u>-</u>	<u>-</u>	<u>-</u>
 Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

WHITE PIGEON COMMUNITY SCHOOLS
 OTHER SUPPLEMENTAL INFORMATION
 STUDENT ACTIVITIES AGENCY FUND
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 YEAR ENDED JUNE 30, 2007

	Balances <u>June 30, 2006</u>	<u>Additions</u>	<u>Deductions</u>	Balances <u>June 30, 2007</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ <u>57,964</u>	\$ <u>183,875</u>	\$ <u>182,778</u>	\$ <u>59,061</u>
<u>LIABILITIES</u>				
Due to student groups	\$ <u>57,964</u>	\$ <u>183,875</u>	\$ <u>182,778</u>	\$ <u>59,061</u>

WHITE PIGEON COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
STATEMENT OF BONDED INDEBTEDNESS
JUNE 30, 2007

1998 SCHOOL IMPROVEMENT BONDS	\$ 83,117
Less:	
Bonds paid in prior years	49,051
Bonds due and paid May 15, 2007	<u> -</u>
BALANCE OUTSTANDING - June 30, 2007	<u><u>\$ 34,066</u></u>

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2008	4.76	\$ -	\$ -	\$ -
2009	4.76	1,211	4,626	5,837
2010	4.76	4,034	13,475	17,509
2011	4.76	760	5,076	5,836
2012	4.76	518	5,318	5,836
2013	4.76	<u>265</u>	<u>5,571</u>	<u>5,836</u>
Total		<u>\$ 6,788</u>	<u>\$ 34,066</u>	<u>\$ 40,854</u>

Interest and principal on the bonds of the above issue is payable annually on May 15. As part of the Durant Settlement the annual principal and interest payments are to be made directly by the State of Michigan.



Norman & Paulsen, P.C.

Certified Public Accountants

127 W. Chicago Road

Sturgis, MI 49091

269.651.3228

Fax 269.651.5146

E-mail

normanpaulsen@charter.net

Other Location:

123 N. Main Street

Three Rivers, MI 49093

269.273.8641

Fax 269.278.8252

E-mail

npfr@npaccounting.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
White Pigeon Community Schools

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of White Pigeon Community Schools (the "School"), as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements and have issued our report thereon dated October 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered the School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting. These deficiencies are referenced as 2007-1 and 2007-2.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)

Finding 2007-1: Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America.

Response: Due primarily to the related negative impact on cash funds available to the School, the hiring of accounting personnel capable of writing the School's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.

The School's response to the findings identified in our audit is described above. We did not audit the School's response and, accordingly, we express no opinion on it.

Finding 2007-2: Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.

Response: As noted above, due to decreased cash flows of the School, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the School's assets. To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the School Board assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

The School's response to the findings identified in our audit is described above. We did not audit the School's response and, accordingly, we express no opinion on it.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 2007-1 and Finding 2007-2 to be a material weakness.

Compliance and Other Matters - As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These instances are referenced as 2006-A, 2006-B, 2006-C, 2007-A, and 2007-B.

Prior Year Comments - Status

Finding 2006-A: Title I, Improving Basic Programs CFDA#84.010

Cash management states that only three days cash needs may be requested in advance. The school district requested the last of their Title I funds so that they would have them on hand at June 30, 2006, even though they did not actually spend the funds until August, 2006. Funds requested prior to the allowable three day time frame were \$2,327. These funds were spent in August 2006, paying expenditures that had been approved in their budget for this program. Funds were shown as deferred revenue at June 30, 2006.

Response:

The business manager at White Pigeon Community Schools was new this fiscal year, and had not received the proper training to understand the rules for requesting federal funds. The business manager has been given information on all of the requirements for requesting of federal money regarding this program. She has also been given the information on where to look for changes in the requirements for requesting money.

The School's response to the findings identified in our audit is described above. We did not audit the School's response and, accordingly, we express no opinion on it.

Action:

The issue was addressed and no funds were requested early during the year ended June 30, 2007.

Finding 2006-B: Title V Part A Innovative Programs CFDA#84.298

Cash management states that only three days cash needs may be requested in advance. The school district requested the last of their Title V funds so that they would have them on hand at June 30, 2006, even though they did not actually spend these funds until August 2006. Funds requested prior to the allowable three day time frame were \$16,545. These funds were spent in August 2006, paying expenditures that qualified for this program.

Response:

The business manager at White Pigeon Community Schools was new this fiscal year, and had not received the proper training to understand the rules for requesting federal funds. The business manager has been given information on all of the requirements for requesting of federal money regarding this program. She has also been given the information on where to look for changes in the requirements for requesting money.

The School's response to the findings identified in our audit is described above. We did not audit the School's response and, accordingly, we express no opinion on it.

Action:

The issue was addressed and no funds were requested early during the year ended June 30, 2007.

Finding 2006-C: Title II Part A Teacher and Principal Training and Recruiting CFDA#84.367

Schools meeting adequate yearly progress are allowed to transfer a portion of their Title II Part A money to other Title Programs if they believe that it will better serve the school. When submitting their budget for the Title Programs, they must show that they intend to do this transfer. If they decide to make changes to what they are going to spend the money on, they must submit an amended budget to the Department of Education.

When White Pigeon Schools submitted their Title budgets, they showed that they intended to transfer \$10,000 of their Title II A budget to Title V Innovative Programs. They showed in Title V that they intended to spend this money on teacher seminars and CPR training. When the program expenditures were reviewed, it was determined that the school system actually transferred \$27,500 of their Title II A money to Title V. They also did not spend the money on seminars and CPR training, but the money was actually spent to purchase computers and software for the teachers to assist in classroom instruction.

The expenditures and transfers were allowed within the parameters of the Title Programs, however, since they did not conform with the budget that had been submitted for the programs, the budgets should have been amended before the money was spent in this manner.

Response:

The Title Coordinator at White Pigeon Schools stated that she had not understood how she was supposed to make these changes in her budget on the computer to report to the Department of Education what she wanted to do. She stated that she had contacted the Department of Education, and had thought they told her that she could make these changes without amending her budget. After this was brought to her attention, she again contacted the Department of Education, and discovered that she did need to amend her budget. She has been instructed to contact the Department and have them give her directions as to how to get this situation taken care of.

The School's response to the findings identified in our audit is described above. We did not audit the School's response and, accordingly, we express no opinion on it.

Action:

There were no transfer or budget violations during the year ended June 30, 2007.

Current Year Comments

Finding 2007-A: National School Lunch Program CFDA#10.555

The National School Lunch Program requires that all students applying for free or reduced lunch must complete an application, and that application must be reviewed by a responsible school official to determine whether or not the child is eligible to receive free or reduced price lunches. Each year the eligibility guidelines are set for the amount of income a family may have in order to take advantage of the program. It is the School's responsibility to use these guidelines in determining the eligibility of the student.

While testing the compliance of the School's Free/Reduced applications, it was determined that the eligibility guidelines for the 05-06 fiscal year were used in determining the eligibility of students for the 06-07 fiscal year. As a result, some students who should have been eligible for free lunch were charged reduced rates, and some students who should have been eligible for reduced price lunches were denied. The result is that the school overcharged students, and did not receive as much revenue from the National School Lunch Program as they should have been eligible for. We are unable to determine the number of meals that may have been involved with this error, and are therefore unable to determine the amount of costs involved.

Response:

The School has purchased a Point of Sale program and equipment to update their food service program. The Point of Sale program will be updated annually with the most up to date information from the National School Lunch Program, including the eligibility scale. The School will utilize this program in determining the eligibility for free and reduced lunches. They believe that this will ensure that they are using the most current information.

The School's response to the findings identified in our audit is described above. We did not audit the School's response and, accordingly, we express no opinion on it.

Finding 2007-B State of Michigan Retirement

The State of Michigan sets the guidelines for who is required to participate in the State of Michigan Retirement System, and what percentage of retirement eligible wages must be paid into the State Retirement System. In the course of our audit, we discovered that some of the wages in the payroll system had been coded incorrectly, as not subject to retirement when they actually were. As a result, the retirement eligible wages as reported to the State of Michigan were understated, and payments made to the system were understated by \$483.

Response:

The school system will develop a reconciliation worksheet which will reconcile total gross wages for each pay period to retirement reportable wages for each pay period. This reconciliation will be reviewed by a responsible individual from the School system to ensure that all wages are reported correctly.

The School's response to the findings identified in our audit is described above. We did not audit the School's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the organization, the School Board, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Norman J. Paulsen, P.C.

October 19, 2007